

# **Report of the auditor-general to Gauteng Provincial Legislature and the council on the Lesedi Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Lesedi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, the cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Lesedi Local Municipality as at 30 June 2014 and its financial performance and cash flow for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Restatement of corresponding figures**

8. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered in the financial statements of Lesedi Local municipality.

## **Material losses**

9. As disclosed in note 53 to the financial statements, material losses amounting to R21 523 139 (2012-13: R30 299 367) were incurred as a result of electricity distribution losses which represent 14% (2012-13: 20%) of total electricity purchased. The total technical losses of electricity amounted to R2 787 634 (2012-13: R1 696 795). Non-technical losses amounted to R18 735 505 (2012-13: R28 602 572) and are due to theft, tampering and faulty meters.

## **Material impairments**

10. As disclosed in note 12, trade and other receivables were significantly impaired as the recoverability of these amounts is doubtful. The impairment of receivables amount R286 347 662 (2013-13: R239 246 256), which represents 82% of consumer debtors.

## **Additional matters**

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited disclosure notes**

12. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.



## Unaudited supplementary schedules

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## Report on other legal and regulatory requirements

14. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings on the reported performance information against predetermined objectives for selected programmes presented in the annual performance report, non-compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2014:
- Programme 1: Basic service delivery pp. x - x
  - Programme 3: Local economic development pp. x - x
  - Programme 5: Good governance pp. x - x
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information*.
18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the selected development priorities are as follows:

## Programme 1: Basic service delivery

### Usefulness of reported performance information

20. The Municipal Systems Act (MSA), section 41(c) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. We identified material inconsistencies between the reported objectives, indicators and targets and those in the approved IDP and service delivery and budget implementation plan (SDBIP). A total of 27% of objectives, 26% of indicators and 24% of targets in the annual performance report were not consistent with those in the IDP and SDBIP. This

was due to due to lack of standard processes to ensure to ensure that changes to the SDBIP were incorporated in the performance report.

## **Reliability of reported performance information**

21. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of documented system descriptions and definitions for the accurate measurement, recording and monitoring of performance.

## **Programme 3: Local economic development**

### **Reliability of reported performance information**

22. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of documented system descriptions and definitions for the accurate measurement, recording and monitoring of performance.
23. I did not raise any material finding on usefulness of reported information for programme 3: Local economic development

## **Programme 5: Good governance**

### **Usefulness of reported performance information**

24. The Municipal Systems Act (MSA), section 41(c) requires the integrated development plan (IDP) to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. We identified material inconsistencies between the reported objectives, indicators and targets and those in the approved IDP and service delivery and budget implementation plan (SDBIP). A total of 47% of objectives, 22% of indicators and 33% of targets in the annual performance report were not consistent with those in the IDP and SDBIP. This was due to due to lack of standard processes to ensure to ensure that changes to the SDBIP were incorporated in the performance report.

### **Reliability of reported performance information**

25. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not valid, accurate and complete when compared to the source information or evidence provided. This was due to a lack of documented system descriptions and definitions for the accurate measurement, recording and monitoring of performance.



## **Additional matter**

26. I draw attention to the following matter:

## **Achievement of planned targets**

27. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material finding on the usefulness of the reported performance information in paragraph 20 to 25 of this report

## **Adjustment of material misstatements**

28. I identified material misstatements in the annual performance report submitted for auditing of the reported performance information for programme 1: Basic service delivery, programme 3: Local economic development and programme 5: Good governance. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

## **Compliance with laws and regulations**

29. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

## **Annual financial statements**

30. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of revenue, receivables, lease commitment, assets and disclosure notes identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

## **Audit committee**

31. The performance audit committee did not submit, at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by municipal planning and performance management regulation 14(4)(a)(iii).

## **Internal control**

32. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## Leadership

33. The accounting officer did not exercise adequate oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls and as a result there were significant findings on the financial statements, and the performance information.

## Financial and performance management

34. Management did not adequately review the financial statements and information supporting disclosure notes and the performance report for completeness, validity and accuracy prior to their submission for audit.
35. Management did not adequately review and monitor compliance with the MFMA.

*Auditor-General*

Johannesburg

30 November 2014



AUDITOR - GENERAL  
SOUTH AFRICA

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